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NATIONAL INTELLIGENCE DAILY CABLE

Thursday July 28, 1977

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NATIONAL SECURITY INFORMATION

Unauthorized Disclosure Subject to Criminal Sanctions

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National Intelligence Daily Cable for Thursday, July 28, 1977.

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The NID Cable is for the purpose of informing senior US officials.

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ANGOLA-PORTUGAL: Repatriation

25X1 [] *The Angolan and Portuguese governments have approved a plan allowing Angolan refugees now living in Portugal to return home "in the shortest possible time." The repatriation agreement might be the first step in a more general Angolan opening to the West.*

25X1 [] More than 500,000 refugees flooded into Portugal from Angola during the 1975 civil war, and a sizable number reportedly is anxious to return if adequate assurances can be given for their material well-being and safety. Both governments plan to ask the UN High Commissioner for Refugees for technical and financial aid to carry out the repatriation project.

25X1 [] According to press reports, Portuguese officials also announced this week that 50 Portuguese who had been imprisoned in Angola will be released to return to Lisbon next week. A number of Portuguese had been arrested following the abortive revolt against Angolan President Neto's government last May.

25X1 [] Both Neto and Portuguese President Eanes have recently gone on record in favor of a rapid improvement in bilateral relations leading to their eventual normalization. Neto believes that Western technological and financial assistance could play an important role in improving Angola's serious economic situation. []

GUINEA: Relations with West

25X1 [] *President Sekou Toure appears to be seriously interested in expanding Guinea's relations with the West. This policy shift is probably based on economic needs, but dissatisfaction over Guinea's relationship with the USSR also plays a*

part. There have been no further signs, however, that Soviet naval reconnaissance aircraft will be denied access to Conakry since Prime Minister Beavogui told US officials in late June that Toure had forbidden the Soviets from basing the planes there.

25X1 [] In a recent speech, Toure appealed to all Guinean exiles to return home, offering them such enticements as tax concessions and freedom to engage in private enterprise in some sectors of the economy. In the same address, he indicated that his government had moderated its hostility against Israel and would no longer "confuse" the Israeli government with "certain Zionist elements."

25X1 [] Many Guineans reportedly view the exile amnesty and moderate line on Israel as manifestations of Guinea's "new realism." Toure's references to the private sector are his first in many years, and government sources foresee further moves toward greater flexibility within the still authoritarian framework of Toure's political party. Few of the thousands of Guinean exiles are likely to return, however.

25X1 [] Guinea's interest in expanding relations with the West is very likely rooted in the country's worsening economic problems. There is strong domestic pressure for increased imports of Western consumer goods, and Guinea is seeking more PL-480 food aid from the US.

25X1 [] For the first time in many years Guinea is encouraging increased dealings with France. Four private French economic delegations were in Guinea in April, and in March a French warship visited Conakry for the first time since Guinea became independent.

25X1 [] Toure almost certainly will maintain his relatively good relations with the USSR. There has been no further indication that Soviet naval reconnaissance aircraft will be forbidden to land at Conakry, and Soviet naval warships continue to use anchorages near the port.

25X1 [] //The government is unhappy, however, over some aspects of Soviet assistance. Guinean officials say the Soviets are not servicing the civil aircraft they supplied Guinea--only one aircraft is now operating--and are demanding hard currency

for overhauling them in the USSR. Perhaps as an expression of pique, Guinea last month seized a Soviet fishing trawler.//

WEST GERMANY: Neutron Controversy

The public debate in West Germany over the possibility that the neutron weapon will be sent to NATO forces there continues to grow despite the Schmidt government's effort to dampen the controversy.

There were minor demonstrations protesting the new warhead at the US consulates in Dusseldorf and Frankfurt during the past week. Another demonstration is planned at the US consulate in Dusseldorf today, and one is to take place in front of the US embassy in Bonn on August 6.

Egon Bahr, the business manager of the Social Democratic Party who triggered the controversy with his remarks about the new warhead, defended his position by assertions Monday that the neutron weapon was "incompatible with human rights." Bahr's remarks reflect those of many left-wing party members who oppose placing the weapons in Europe on moral or humanitarian grounds, but his statement is also a calculated move to suggest that opposition Christian Democrats who have endorsed the neutron weapon lack a concern for human rights.

Since last spring, Bahr has been looking for a formula to counter the opposition leaders who have played President Carter's human rights policy against the Social Democrats. Despite Bahr's implications, some Christian Democratic leaders have reservations of their own about deployment of the neutron warhead. Bahr's remarks, nevertheless, will make it more difficult for the government to formulate a balanced policy.

The widely circulated magazine *Der Spiegel* earlier this week asserted that Bonn had been caught by surprise and that the new weapon would undermine Chancellor Schmidt's efforts to restore momentum to the policy of improving relations with the Soviets and East Europeans. *Spiegel's* accusations may gain credibility in some political quarters; General Wust, the Bundeswehr's chief of staff, has complained publicly that the weapon was not discussed in NATO's nuclear planning group.

25X1 [] The neutron warhead, in fact, was presented as part of a series of US proposals for modernizing tactical nuclear weapons in Western Europe but never was the focus of Allied discussions. Foreign Minister Genscher and Defense Minister Leber emphasized in separate interviews last weekend that the decision to station the weapon in Western Europe would not be taken until NATO has had a chance to review the US proposals.

25X1 [] To protect the government against accusations like General Wust's, Leber reiterated Schmidt's recent assurance that US officials had kept their West German counterparts informed about the development of the neutron weapon over the past two years. Schmidt, for his part, seems to have reservations about deployment of the new weapon because he believes that its potential contribution to the Alliance's deterrent is still an open question. He has asserted that the neutron warhead poses serious "strategic and psychological problems" for West Germany and NATO. []

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PORTUGAL - ARAB STATES: Boycott

25X1 [] //Arab League Secretary General Riyad reportedly informed the Portuguese charge in Cairo on Tuesday that the Arab states are planning to impose an economic boycott on Portugal in retaliation for the Portuguese decision in May to recognize Israel. The Arabs apparently hope to deter other countries that might be considering establishing relations with Israel. The boycott, which includes oil, is unlikely to hurt Portugal economically.//

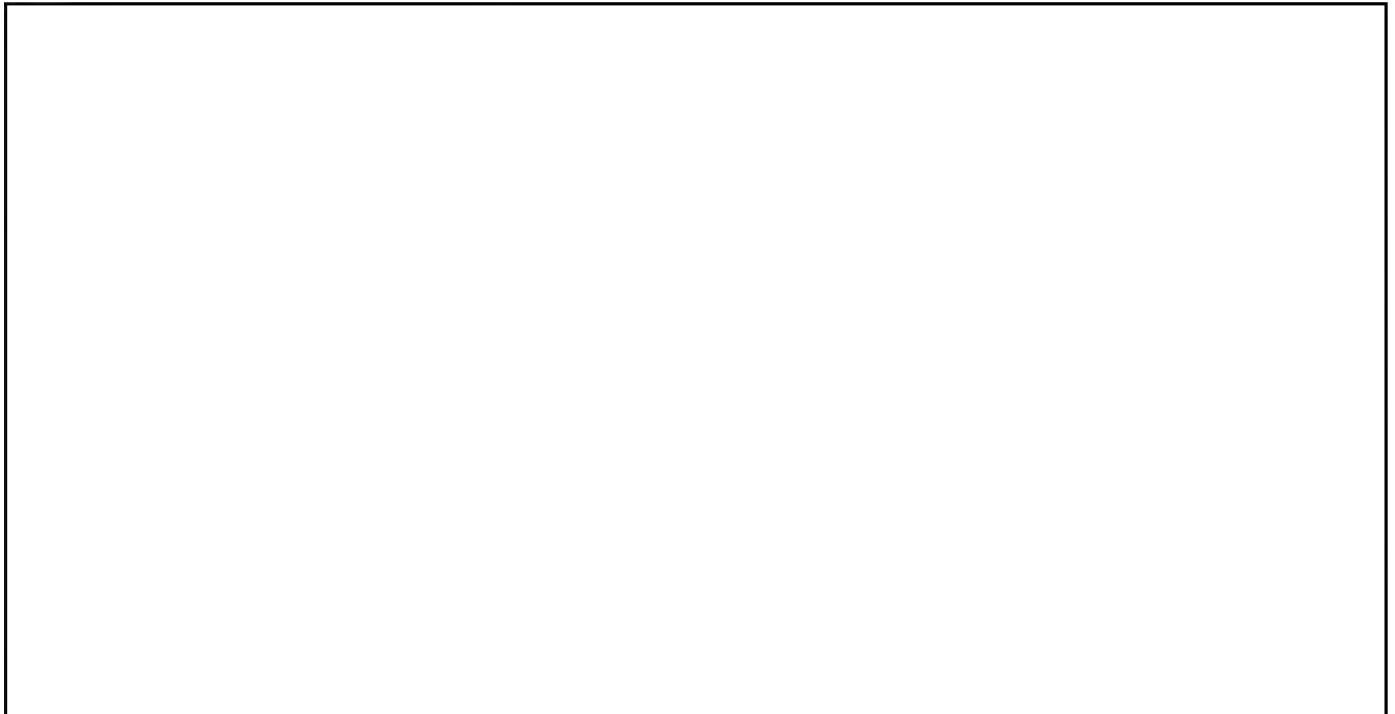
25X1 [] //Saudi Arabia reportedly plans to introduce a resolution to impose the boycott against Portugal at the Arab League Council meeting in September. Consultations have already begun in Cairo among the Egyptian foreign minister and ambassadors of Saudi Arabia, Kuwait, Bahrain, the United Arab Emirates, and Algeria.//

25X1 [] //The Arab League official told the Portuguese charge that the Arab move was an effort to discourage African states, such as Senegal and the Ivory Coast, from re-establishing relations with Israel and also to deter Spain from establishing them. The Arab official commented that he believed that the Saudi initiative was also an effort to remind the US

that the Arabs would not hesitate to use their economic leverage if there were no progress in the Middle East peace negotiations.//

25X1 [] The Arabs apparently singled out Portugal as a target because Portugal recognized Israel at a time when the Arabs believe they are succeeding in isolating Israel diplomatically. Moreover, the Portuguese islands of the Azores have been used to refuel US aircraft carrying supplies to Israel during past Middle East conflicts.

25X1 [] At the same time the Arabs must also be aware that their boycott is not likely to have an adverse economic impact on Portugal. The merchandise trade between the Arab countries and Portugal is small. Portugal imports less than 6 million metric tons of crude oil annually. Although over 60 percent of this amount comes from the Arabs, this small quantity could be obtained from alternate sources. Iran already provides about 20 percent of the Portuguese oil imports and almost certainly would be willing to increase its share. In addition, Portugal could obtain refined products from West European countries that have excess refining capacity. 25X1 []



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POLAND: Trade Deficit Reduced

25X1 [] Poland reports it has cut its hard-currency deficit by about a third in the first half of 1977. The Poles, however, failed to meet their export plan as Western economic growth continued to falter. Even if Poland is able substantially to reduce the deficit for the entire year, it is expected to encounter difficulties in raising the necessary financing and may have to reschedule part of its debt.

25X1 [] A Polish official has told the US embassy in Warsaw that trade results in the first six months of 1977 were "not as bad as expected." He reported that the reduction in Poland's hard-currency deficit resulted from a 13 percent boost in exports and a 5 percent cut in imports. We cannot confirm these figures because Poland stopped publishing adequate trade statistics in January.

25X1 [] Polish leaders have expressed concern that trade with the West, particularly exports, has been doing poorly. Poland had hoped to boost real exports 20 percent in 1977 while holding imports near the 1976 level. Exports, however, have been held down by continued sluggish Western economic growth, and some of Poland's important exports--such as copper, zinc, hams, and sugar--have been hit by declining prices. Terms of trade have deteriorated because import prices have risen.

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[] If the reported trade trend continues, Poland's hard-currency deficit this year would be at least \$500 million below the \$3 billion recorded in 1976. Nonetheless, Poland's total financing needs--to cover the deficit and to meet escalating debt repayments--could approach \$4 billion this year. More than half of Poland's exports will be required in 1977 to service the cumulative debt, which totaled \$10.2 billion at the end of 1976.

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[] Poland is expecting problems in rolling over its debt this year and would like US bank financial assistance. Such assistance, however, probably would require higher interest rates and stiffer terms. [] Warsaw is expected to seek deferred payments on US Eximbank and West European government-guaranteed credits later this year. []

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